VCD: 290323 SYBFM Sem-IV CORPORATE FINANCE 75 marks 2 ½ Hrs

Q.1.A) Fill in the blanks with appropriate answers: (Any 8) (08)

1.) The most important ratio in case of granting of term loan is ___________ .

a) EPS. b.) P/E

c) Current Ratio. d.)DSCR

2.)___________ shares are free shares issued to the shareholders.

a)Bonus. b) Right

c) Equity d) Preference

3.Present value of a Rupee is always ___________.

a)Equal to its future value. b) Greater than its future value

c)Less than its future value. d) Not related to its future value

4.)Method that does not consider cash inflows for the entire life of the project is___________.

a)ARR. b) Payback period

c) NPV. d) Profitability Index

5.)The full form of the abbreviation P/E in P/E ratio is______.

a) Profit Earning. b) Price Equity

c) Preference Equity. d) Price Earning

6.) Interest is paid from ___________.

a) Earnings before Interest and Tax. b) Profit after Tax

c) Earnings after Interest and Tax. d) Profit after Tax and dividend.

7.) MOS (Units) = Profit/___________.

a) Variable cost per unit. b) Contribution per unit

c) Fixed cost per unit d) Sales per unit

8.) At BEP, both profit and loss is ___________.

a) Positive. b) Profit exceeds loss

c) Negative. d)Zero

9.) WACC stands for ___________.

a) Working and Cost Capital. b) Working and Current Capital

c) Weighted Average Cost of Capital d.)None of the above

10.) A type of preference shares which can be converted into Equity shares are ______________.

a)Participating Preference Shares b)Cumulative preference shares

c) Secured Preference Shares d)Convertible Preference Shares.

Q.1.B) State whether the following statements are True or False: (Any 7) (07)

1.) Share capital is a long term source of finance.

2.) Equity investors are high risk bearers.

3.) Cash Inflow= NPAT + Depreciation.

4.) The break even chart is also called as Cost Volume Profit Graph .

5.) Shareholders are interested in maximizing their wealth.

6.) An overcapitalized company is one which incurs exceptionally high profits as compared to industry.

7.)Variable cost per unit varies with the increase in the volume of output.

8.)Cost of equity is zero.

9.) Preference share capital has fixed rate of interest.

10.)Hire purchase price do not include interest.

Q.2.Variable Cost Rs.60,000 (15)
Fixed Cost. Rs.30,000
Profit Rs.10,000
Sales Rs.1,00,000.
Find out:

a) P/V ratio
b) Break Even Point
c) Margin of Safety
d) Profit when sales is Rs.1,20,000
e) Sales required to earn a profit of Rs.20,000

OR

Q.2.B.) Winky Bros. has currently an ordinary share capital of Rs. 50,00,000, consisting of 50,000 shares of Rs.100 each. The management is planning to raise another Rs. 40,00,000 to finance major program of expansion through one of four possible financial plans. (15)
The plans are:

i) Entirely through ordinary shares.

ii)Rs.20,00,000 through ordinary shares and Rs.20,00,000 through long term borrowings at 10% interest per annum.

iii)Rs.10,00,000 through ordinary shares and Rs.30,00,000 through long term borrowings at 10% interest per annum.
iv)Rs.20,00,000 through ordinary shares and Rs.20,00,000 through preference shares with 8% dividend.
The companies expected earnings before interest and taxes (EBIT) will be Rs.16,00,000.
Assuming corporate tax rate of 50%, determine the EPS in each alternative.

Q.3A) Manju ltd gives the following information: (15)

Sources of fund	Amount (Rs)	Cost of Capital
Equity	90,00,000	15%
8% Preference shares	24,00,000	8%
Retained earning	36 ,00,000	11%
Debentures	30,00,000	10% (before Tax)

You are required to calculate WACC assuming Tax rate is 40%.

OR

Q.3.B) Explain Hire Purchase in detail. (08)

Q.3.C) Distinguish between Operating lease and Financing lease. (07)

Q.4A.) X company can make either of two Investments. Assuming a required rate of return of 10% determine for each project : (15)
i)The Payback Period
ii)Payback Profitability
You may also assume straight line of Depreciation:

Particulars	Project A	Project B
Cost of Investment (Rs)	4,00,000	5,60,000
Expected life (No Salvage)	5 years	5 years
Project Net income (after taxes):		
Year:	Rs.	Rs.
1	20,000	48,000
2	20,000	48,000
3	40,000	48,000
4	40,000	48,000
5	40,000	48,000

OR

Q.4B.) A Company is considering two mutually exclusive projects. Both require initial investment of Rupees 20,00,000 each and have a life of five years. The net cash inflows are given below: (15)

Year	Proposal A	Proposal B	PV Factor @10%	PV Factor @20%
1	5,00,000	5,50,000	0.91	0.83
2	5,20,000	5,30,000	0.83	0.69
3	5,80,000	5,80,000	0.75	0.58
4	5,50,000	5,50,000	0.68	0.48
5	5,00,000	5,50,000	0.62	0.41

The cost of capital is 10%. Which project should be accepted as per NPV method? Also find out IRR, taking 10% and 20% discounting factors

Q.5.A) What are the various sources of Long term Finance. (08)

B.)Explain the determinants of Capital Structure. (07)

OR

Q.5.C) Write Short Notes on: (Any 3) (15)

1. Qualities of Finance Manager.
2. Borrowed Capital and Owned Capital
3. Importance of Corporate Finance
4. Equity Financing
5. Break Even Analysis